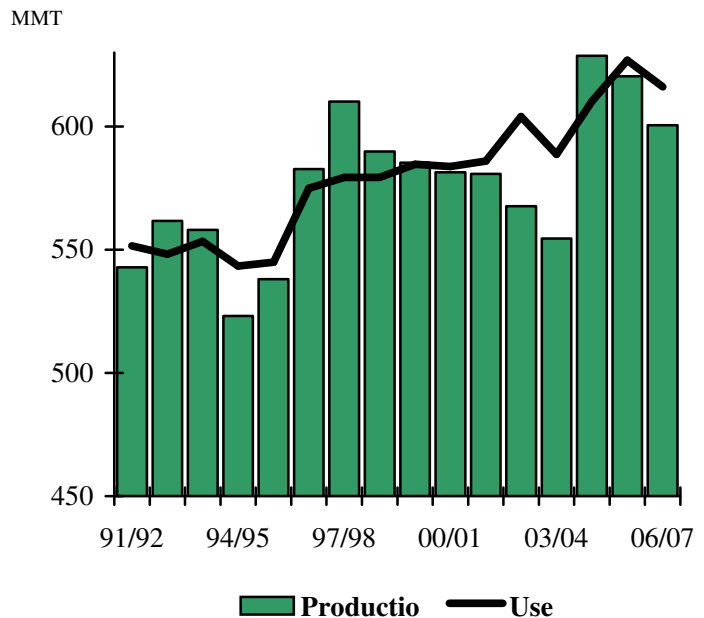
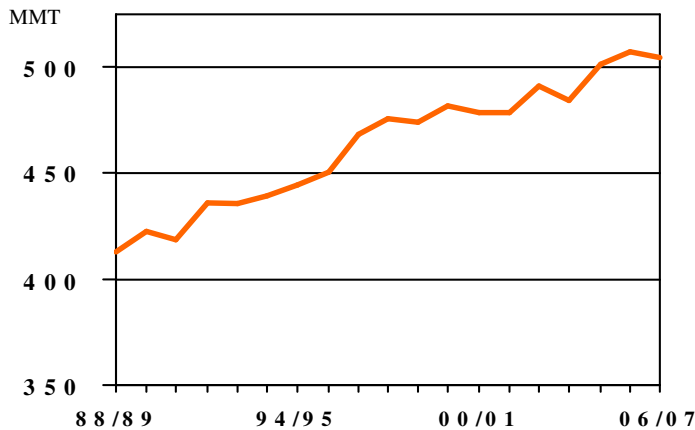

WHEAT: WORLD MARKETS AND TRADE

World wheat supply is forecast to tighten in 2006/07 as production falls for the second consecutive year. Global consumption is also projected to decline (from last year's record), as a result of less animal feeding. Europe and the Former Soviet Union typically account for 75 percent of world wheat feeding, and with short crops in many countries in these regions, demand will likely shift to greater coarse grains use. Global food use is expected to remain largely unchanged, but some growth is expected to continue in developing countries in Asia and Africa. With global consumption still expected to outstrip production, ending stocks are forecast to reach their lowest levels in 25 years. Prices are therefore expected to climb, especially in the United States. While global ending stocks are down, certain exporters such as the European Union, Australia, and Canada are still expected to have fairly large ending stocks.

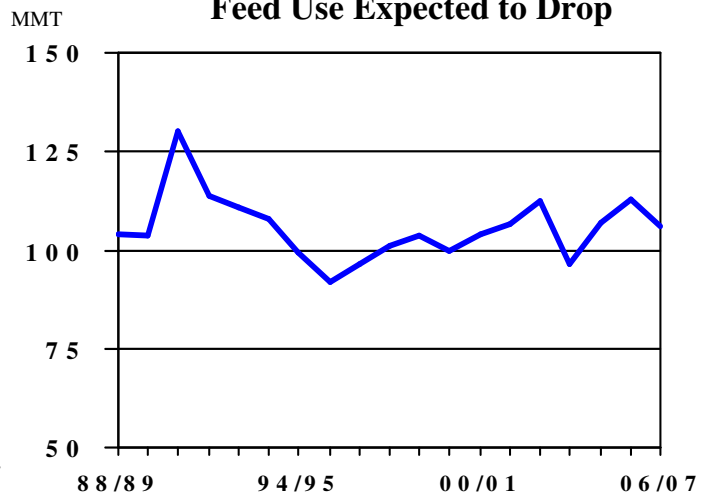
Production Remains Below Consumption



Food/Seed/Industrial Use Expected Steady



Feed Use Expected to Drop

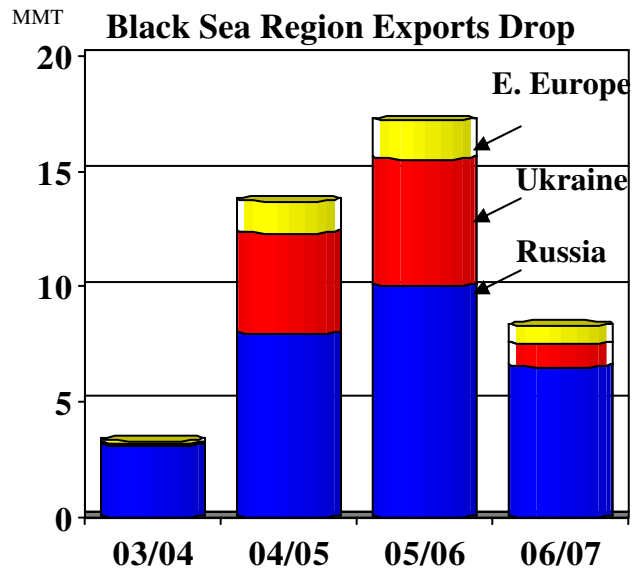


Total world trade is estimated down slightly from last year primarily as a result of less trade in feed-quality wheat, with short crops in the Black Sea region. World trade of durum is also expected to decline significantly as a result of better North African and EU crops (the primary importing regions).

HIGHLIGHTS FOR 2006/07

Selected Exporters

A key factor this year for world wheat exporters is sharply less competition from the Black Sea region. Production in **Russia**, **Ukraine**, and **Eastern Europe** is projected to be down sharply as a very dry fall reduced plantings, and harsh weather has adversely impacted yields. Exports are forecast to drop by half, supporting higher global soft wheat prices for the upcoming year, and boosting exports in most other key global suppliers (except the United States where supplies will be tight).

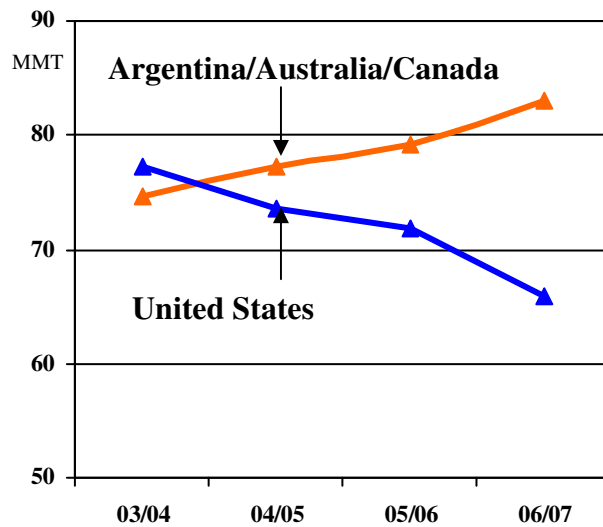


The **EU-25** will likely be a prime beneficiary of this reduced competition and implied higher prices, which could enable the EU to export with little or no subsidy. With large stocks, expected higher production, proximity, and freight advantage to key Mediterranean markets, exports are expected to be up. **Argentine** exports are also forecast to surge with a recovery in production from the poor crop in 2004/05. This higher availability will allow greater exports outside South America, which will likely replace Black Sea region exports into Mediterranean and select Asian markets.

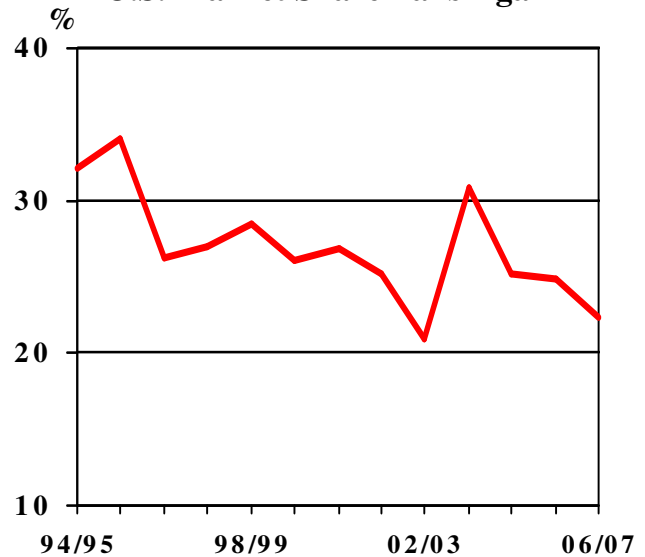
Australian exports are forecast to jump to a record as a result of ample supplies and stronger regional demand. Beginning stocks are very large due to a string of good crops, and Australia will likely benefit from reduced competition from both the Black Sea region and the United States. The reemergence of markets such as India, Iran, and Iraq, which in the past bought large quantities of Australian wheat, will also likely boost shipments. **Canadian** exports are also forecast to surge as a return to normal quality, coupled with reduced competition from the United States, will raise spring wheat sales to Asian and Latin American markets. Exports to the United States will also likely grow with the removal of import duties. Durum exports, however, could fall with reduced foreign demand.

United States supplies, especially for hard wheat, are expected to be very tight in 2006/07. U.S. total planted area has been in gradual decline for decades, and is estimated to be the lowest since 1972. This, coupled with drought and poor crop conditions for Hard Red Winter, is expected to slash production. With beginning stocks already at low levels, a further reduction in stocks is forecast to boost prices significantly above levels of the past few years. Exports are consequently forecast to fall for the third consecutive year.

Exportable Supply Situation Diverges



U.S. Market Share Falls Again



Selected Importers

India has suddenly emerged as a major market, with imports currently forecast to climb to 4 million tons, the highest level in 30 years. With carry-in stocks very small (only 1.8 million tons compared to 23 million just five years ago), and a reduced harvest, prices have been climbing. Government procurement is far behind last year's level, and as a result the government has announced its intention to conduct large scale purchases from foreign suppliers. A tender for 3 million tons of imports was recently opened.

Elsewhere in Asia, imports by **China** and **Pakistan** are expected to be relatively unchanged at fairly low levels (compared to two years ago) due to ample domestic supplies.

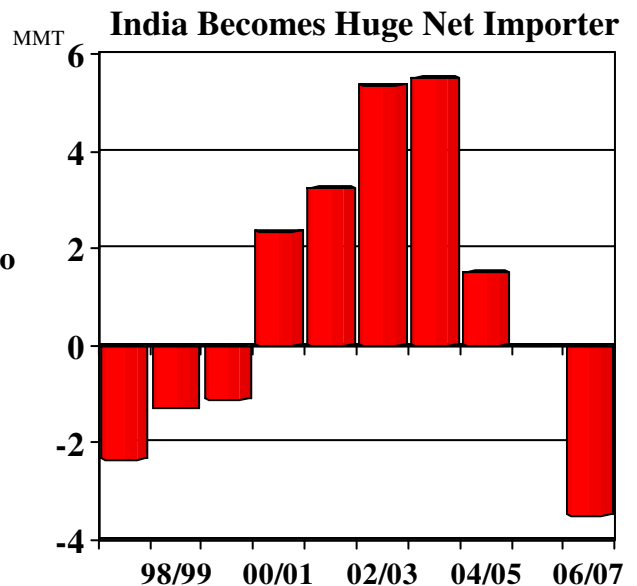
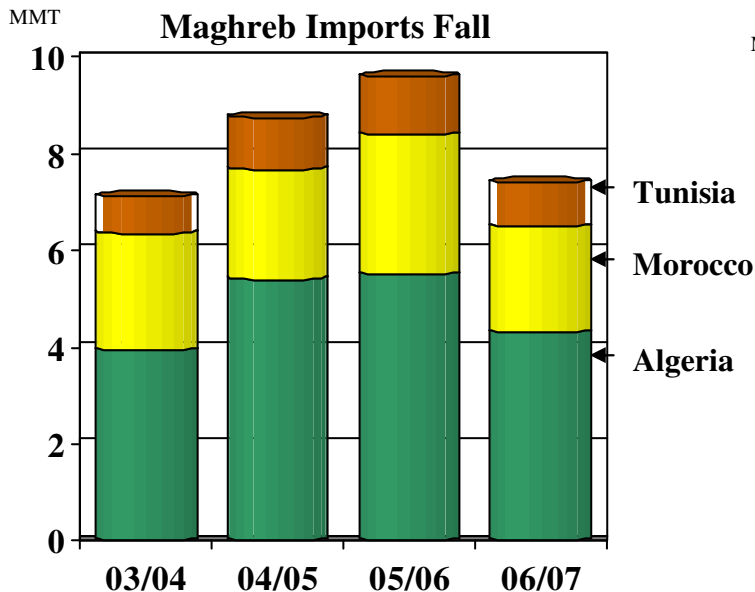
With fewer supplies of feed-quality wheat from the Black Sea region, markets such as **EU-25**, **South Korea**, **Israel**, and **Philippines** are all expected to rely more on domestic supplies or shift to other feed grains. In fact, EU-25 import quotas for low and medium quality wheat may not be completely filled as the result of smaller Ukrainian exportable supplies and reduced demand in Spain.

North African imports are expected to drop as a result of improved crop prospects for both wheat and durum in the Maghreb region (**Algeria**, **Morocco**, **Tunisia**). This should have a large effect on durum trade, as the region accounts for a very large portion of global demand. **Egypt** is expected to purchase slightly less wheat in 2006/07, but remains the world's largest importer and a very competitive market.

Sub-Saharan imports are projected to continue to rise, driven by **Nigeria**, where the milling industry is rapidly expanding. **South African** imports are expected to fall slightly, with marginally higher production.

In Latin America, **Brazil** and **Mexico** are forecast to increase imports slightly as food consumption continues to grow and domestic supplies remain largely unchanged.

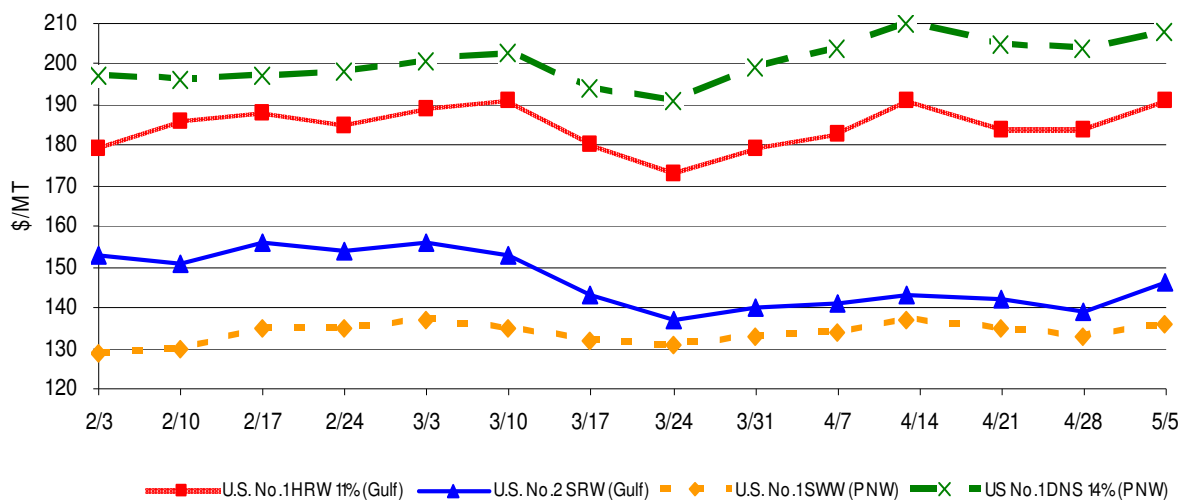
United States' imports are estimated to be up from last year as the removal of import duties and strong U.S. prices will facilitate more spring wheat shipments from Canada.



PRICES:

Domestic: U.S. wheat prices rose in April on expectations for a poor winter crop as the result of continued dryness in the Hard Red winter belt and poor crop conditions. For the month, HRW prices had the largest gain, rising \$12 a ton, with HRS up \$9 per ton, SRW up \$6 per ton and SWW up \$3 per ton.

U.S. Weekly FOB Export Bids



Grain: World Markets and Trade, May 2006

TRADE CHANGES IN 2005/2006

Selected Exporters

- **Argentina** up 200,000 tons to 7.2 million on an upward revision in production.
- **Brazil** up 150,000 tons to 750,000 due to strong exports to Philippines and Spain.
- **Bulgaria** up 200,000 tons to 1.0 million due more current trade data.
- **Kazakhstan** down 200,000 tons to 3.0 million due to slow pace to date.